

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name E.U.P. Transportation Authority	County Chippewa
Audit Date 9/30/05	Opinion Date 12/15/05	Date Accountant Report Submitted to State: 3/6/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman and Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature 		Date 3/6/06	

**EASTERN UPPER PENINSULA
TRANSPORTATION AUTHORITY**

BASIC FINANCIAL STATEMENTS

September 30, 2005

EASTERN UPPER PENINSULA TRANSPORTATION AUTHORITY

BOARD OF DIRECTORS

Frank Sasso
Chair

Rodney Richards
Vice Chair

Aaron Hopper
Secretary/Treasurer

Ted Postula
Trustee

Dennis Robinson
Trustee

ADMINISTRATION

Charles Moser
Executive Officer

G. Akemi Gordon
Finance Director

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Eastern Upper Peninsula
Transportation Authority
4001 I-75 Business Spur
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the business-type activities of the Eastern Upper Peninsula Transportation Authority, Michigan, as of and for September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Eastern Upper Peninsula Transportation Authority, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005 on our consideration of the Eastern Upper Peninsula Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and supplemental schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in blue ink that reads "Anderson, Tackman & Co., PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2005

Management's Discussion and Analysis

Eastern Upper Peninsula Transportation Authority

Management's Discussion and Analysis
September 30, 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority as a Whole

The Authority's combined net assets increased from a year ago increasing from \$9,868,714 to \$9,868,837. The increase can be attributable to close budget monitoring.

In a condensed format, the table below shows the net assets of Eastern Upper Peninsula Transportation Authority.

	Business-type Activities 2004	Business-type Activities 2005
Current Assets	\$ 926,240	\$ 867,064
Noncurrent Assets	<u>9,561,964</u>	<u>9,553,467</u>
Total Assets	<u>\$ 10,488,204</u>	<u>\$ 10,420,531</u>
Current Liabilities	226,270	188,293
Long-Term Debt Outstanding	<u>393,220</u>	<u>363,401</u>
Total Liabilities	<u>619,490</u>	<u>551,694</u>
Net Assets		
Invested in Capital Assets - Net of Debt	9,315,722	9,344,349
Unrestricted	<u>552,992</u>	<u>524,488</u>
Total Net Assets	<u>\$ 9,868,714</u>	<u>\$ 9,868,837</u>

Eastern Upper Peninsula Transportation Authority

Management's Discussion and Analysis September 30, 2005

The current level of unrestricted net assets for our business-type activities stands at \$524,488, or about 16% of expenses.

Net Assets of the business-type activities increased approximately .0012%.

The following table shows the activities of the Authority.

	Business-type Activities <u>2004</u>	Business-type Activities <u>2005</u>
Operating Revenues		
Fares	\$ 1,220,186	\$ 1,267,156
Non-Operating Revenues		
Local	35,460	49,380
State	1,315,827	1,387,899
Federal	51,633	55,993
Capital Match	32,139	20,548
Capital Grants	<u>334,380</u>	<u>479,029</u>
Total Revenues	<u>2,989,625</u>	<u>3,260,005</u>
Program Expenses		
Transportation	<u>3,160,073</u>	<u>3,259,882</u>
Total Expenses	<u>3,160,073</u>	<u>3,259,882</u>
Change in Net Assets	(170,448)	123
Beginning Net Assets	<u>10,039,162</u>	<u>9,868,714</u>
Ending Net Assets	<u>\$ 9,868,714</u>	<u>\$ 9,868,837</u>

Eastern Upper Peninsula Transportation Authority

**Management's Discussion and Analysis
September 30, 2005**

Business-Type Activities

The Authority's total business-type revenues increased by approximately \$270,380. A majority of the Authority's revenue is tourist and weather driven. The increase in revenue can be attributable to both of these factors.

Expenses increased by about \$99,809 during the year. This was primarily the result of an increase in fuel costs.

Capital Asset and Debt Administration

At the end of 2005, the Authority had \$9,553,867 invested in a broad range of capital assets, including ferry boats, docks, buses, machinery and equipment.

Economic Factors and Next Year's Budgets and Rates

The Authority is in a budget battle from year to year, primarily with its busing operations. The Authority receives state financial assistance under provisions of Act 51 whose revenue stream is funded by the Comprehensive Transportation Fund (CTF). With increased expenses and reduced state and local funding, the Authority will be taking the necessary measures to operate its busing and ferry operations under a balanced budget.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact our office at 906-632-2898.

Basic Financial Statements

Eastern Upper Peninsula Transportation Authority

Statement of Net Assets September 30, 2005

ASSETS

Current Assets:

Cash and Equivalents (Note 3)	
Unrestricted	\$ 660,833
Restricted	20,000
Due from State of Michigan (Note 17)	105,330
Accounts Receivable	47,028
Prepaid Expenses	30,158
Other Assets	<u>3,715</u>
 TOTAL CURRENT ASSETS	 <u>867,064</u>

Noncurrent Assets:

Capital Assets, (Net of Accumulated Depreciation) (Note 4)	<u>9,553,467</u>
 TOTAL ASSETS	 <u>\$ 10,420,531</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 69,548
Current Portion of Note Payable (Note 6)	38,609
Current Portion of Accrued Compensated Absences (Note 5)	3,220
Accrued Payroll and Related Liabilities	<u>76,916</u>
 TOTAL CURRENT LIABILITIES	 <u>188,293</u>

Noncurrent Liabilities:

Note Payable – Long-Term Portion (Note 6)	170,509
Deferred Revenue (Note 16)	3,672
Accrued Compensated Absences (Note 5)	<u>189,220</u>
 TOTAL NONCURRENT LIABILITIES	 <u>363,401</u>
 TOTAL LIABILITIES	 <u>551,694</u>

Net Assets:

Invested in Capital Assets – Net of Related Debt	9,344,349
Unrestricted	<u>524,488</u>
 TOTAL NET ASSETS	 <u>\$ 9,868,837</u>

The accompanying notes are an integral part of these financial statements.

Eastern Upper Peninsula Transportation Authority

Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended September 30, 2005

Operating Revenues:

Schedule 1	\$ 1,267,156
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Operating Expenses:

Schedule 1	3,259,882
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Operating Income (Loss)	(1,992,726)
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Nonoperating Revenues:

Local (Schedule 1)	49,380
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State and Federal (Schedule 1)	1,443,892
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Capital Match	20,548
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Capital Grants	479,029
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Change in Net Assets	123
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Net Assets – October 1, 2004	9,868,714
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Net Assets – September 30, 2005	\$ 9,868,837
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The accompanying notes are an integral part of these financial statements.

Eastern Upper Peninsula Transportation Authority

Statement of Cash Flows For the Year Ended September 30, 2005

Cash Flows from Operating Activities:

Receipts from customers	\$ 1,325,366
Payments to suppliers	(890,983)
Payments to employees	(1,915,859)
Other receipts (payments)	<u>(129,377)</u>

Net Cash Provided (used) by Operating Activities (1,610,853)

Cash Flows from Capital and Related Financing Activities:

Capital grant funds received to acquire property and equipment	479,029
Net acquisitions of property and equipment	(474,952)
Net cash proceeds from the sale of property	5,978
Interest and surcharge allocation to local ferry capital match	62,787
Local share of capital acquisitions	(42,236)
Principal payments	(37,124)
Local sources	43,402
Federal and state sources	<u>1,443,892</u>

Net Cash Provided (used) by Capital and Related Financing Activities 1,480,776

Net Cash Provided (Used) – All Activities (130,077)

Cash and Cash Equivalents at Beginning of the Year 810,910

Cash and Cash Equivalents at End of Year \$ 680,833

Interest Paid \$ 11,474

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:

Operating Income (Loss) \$ (1,992,726)

Adjustments to reconcile operating income to net cash
provided by operating activities:

Depreciation	483,712
Net (gain) loss on disposal of property	(5,978)

Change in Net Assets and Liabilities:

(Increase) decrease in accounts receivable	14,177
(Increase) decrease in due from State of Michigan	(62,229)
(Increase) decrease in prepaid expenses	(21,544)
(Increase) decrease in other assets	(1,305)
Increase (decrease) in accounts payable	(10,886)
Increase (decrease) in accrued liabilities	(17,824)
Increase (decrease) in deferred revenue	894
Increase (decrease) in compensated absences	<u>2,856</u>
Total adjustments	<u>381,873</u>

Net Cash Provided (used) by Operating Activities \$ (1,610,853)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Eastern Upper Peninsula Transportation Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Authority:

A – Reporting Entity:

Financial Reporting Entity

The Authority was incorporated on March 15, 1975, by Chippewa and Luce Counties, Michigan, under provisions of Act No. 55, of 1951, as amended, for the purpose of acquiring, owning and operating a public transportation system within the boundaries of the participating counties. The Authority's status as a separate public body corporation was reaffirmed on March 18, 1980 when the participating counties enacted an inter-local agreement under the provision of Act 7, Public Acts of 1967, as amended.

The financial statements of the Authority include the following operations: St. Mary's River Ferry System, Rural Bus Program, and the internal cost center (administration) that supports those operations. The operations listed above are included because the Authority has direct oversight responsibility over each operation.

B – Basic Financial Statements:

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses, and changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities rely to a significant extent on fees and charges for support.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All other revenue items are considered to be available only when cash is received by the government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business-Type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity

Capital Assets – Capital assets, which include property, plant, and equipment, are reported. Accordingly, all assets associated with their activity are included on the balance sheet with reported fund equity (net total assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All Fixed Assets are capitalized that are over \$5,000 and have a useful life of more than 2 years.

Depreciation – Property, plant and equipment is depreciated using the straight-line method over the following useful live.

Docks	40 years
Ferries	10 years
Equipment	3-10 years
Building improvements	40 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefits – Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposit cash in savings, money market accounts, and certificates of deposit. For purposes of the statement of cash flows, the propriety fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. A budgetary comparison schedule is not present as it is not legally required.

Budget - The Authority follows these procedures in establishing budgetary data:

- a. Authority administration prepares and submits to the Authority Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenditures and means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP).
- b. The Authority Board formally adopts the finalized operating budget at a normal public meeting held prior to the commencement of the fiscal year.
- c. Authority administration is authorized to transfer budgeted amounts between line items within departmental budgets with post transfer Board approval.
- d. Formal budgetary integration is employed as a management control device during the year.
- e. Budgetary authority lapses at year end.
- f. Budgeted amounts are as originally adopted, with the exception of administration induced transfers which were not material in relation to the budget on the whole.

NOTE 3 - CASH AND EQUIVALENTS

Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.

NOTE 3- CASH AND EQUIVALENTS (Continued)

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in several local financial institutions. All deposits are carried at cost.

Balance Sheet Account

Cash and equivalents

Unrestricted	\$ 660,833
Restricted	20,000

\$ 680,833

Cash Items

Office fund	\$ 800
Working fund	950
Checking	81,231
Savings	347,607
Certificates of Deposit	<u>250,245</u>

\$ 680,833

NOTE 3- CASH AND EQUIVALENTS (Continued)

The Authority has \$20,000 deposited in a savings account which is on hold for a secured MasterCard.

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the previous list of authorized investments. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The Authority has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$472,849 of the Authority's bank balance of \$696,920 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 4 - CAPITAL ASSETS

Capital Assets activity for the current year was as follows:

Business-Type Activities:	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments / Decreases</u>	<u>Ending Balances</u>
<i>Capital Assets Being Depreciated:</i>				
EUPTA Assets	1,805	-	-	1,805
Busing Assets	570,255	56,680	-	626,935
Ferry Assets	14,269,896	580,717	27,383	14,823,230
Administrative Assets	12,388	-	10,990	1,398
Construction in Progress	<u>157,104</u>	<u>233,904</u>	<u>391,008</u>	<u>-</u>
Subtotal	<u>15,011,448</u>	<u>871,301</u>	<u>429,381</u>	<u>15,453,368</u>
<i>Less Accumulated Depreciation for:</i>				
EUPTA Assets	1,293	185	86	1,392
Busing Assets	350,667	65,950	-	416,617
Ferry Assets	5,086,305	417,393	23,204	5,480,494
Administrative Assets	<u>11,219</u>	<u>184</u>	<u>10,005</u>	<u>1,398</u>
Subtotal	<u>5,449,484</u>	<u>483,712</u>	<u>33,295</u>	<u>5,899,901</u>
Net Capital Assets being Depreciated	<u>9,561,964</u>	<u>387,589</u>	<u>396,086</u>	<u>9,553,467</u>
Total Capital Assets – Net of Depreciation	<u>\$ 9,561,964</u>	<u>\$ 387,589</u>	<u>\$ 396,086</u>	<u>\$ 9,553,467</u>

NOTE 5 - LONG-TERM DEBT

Recognition is made for the liability existing for unused benefits at September 30, 2005 as follows:

Vacation	\$ 70,477
Sick Leave	98,471
Accrued interest on outstanding sick leave balance (ferry)	<u>23,492</u>
Total long-term compensated absences	<u>192,440</u>
Less: Current Portion	<u>(3,220)</u>
Total long-term compensated absence	<u>\$ 189,220</u>

Sick leave is payable only upon termination and is stipulated by the particular union contract covering each employee group. The ferry group contracts allow payment of 50% of sick leave up to 960 hours of accumulated time and 100% of sick leave after 960 hours of accumulated time. Employees also have the option to sell back any hours over 960 hours to the Authority prior to year end. The Authority allocates a portion of the interest earned on the accrued balances to each ferry employee's sick leave balance as an additional benefit.

NOTE 6 - NOTE PAYABLE

The Authority entered into a loan contract with the State of Michigan Department of Transportation on April 20, 2000. The loan is secured by future Michigan Transportation Fund payments to the Authority. The loan, in the amount of \$381,000, is payable in annual installments of \$46,974 for ten years, including interest at the rate of 4%. The first payment was due on May 3, 2001. Activity of the note payable for the year ended September 30, 2005 is summarized as follows:

Balance, October 1, 2004	\$ 246,242
Deletions (payments)	<u>(37,124)</u>
Balance, September 30, 2005	<u>209,118</u>
Less: Current Portion	<u>38,609</u>
Long-term Portion	<u>\$ 170,509</u>

NOTE 6 - NOTE PAYABLE (Continued)

Maturities of principal and interest over the remaining life of the note payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	38,609	8,365	46,974
2007	40,154	6,820	46,974
2008	41,760	5,214	46,974
2009	43,430	3,544	46,974
2010	<u>45,165</u>	<u>1,808</u>	<u>46,973</u>
Total	<u>\$ 209,118</u>	<u>\$ 25,751</u>	<u>\$ 234,869</u>

NOTE 7 - CAPITAL AND OPERATING GRANTS

Property and equipment purchased with capital grant funds must be used for mass transportation purposes as follows:

- Urban mass transportation capital grant purchases must be used for ten years in the case of buses and items of equipment costing less than \$50,000, and twenty years for facilities and equipment costing \$50,000 or more.
- Michigan State Highway Commission grant purchases must be used during the useful life of all items of equipment and facilities.

The Authority currently subleases two (2) buses from the Michigan Department of Transportation (MDOT). The MDOT forgives the Authority the lease payments on these buses over the life of the lease term. Title to the buses remains with the lesser of the lease transaction with the MDOT.

If the asset is withdrawn from mass transportation service, the Authority must remit its proportionate share of the fair market value to the government.

Capital grant activity for the current fiscal year is summarized on the schedule of expenses by contract and general operations contained in these financial statements.

Currently, the Authority receives approximately 50% of its ferry operation expenses from a state appropriation. The Michigan Transportation Commission developed a transportation policy for island transportation systems encouraging privatization and subsidy reduction.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During October 1989, the government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. In December 1989, the government joined together with other governments to form the Michigan Transit Pool, a public entity risk pool currently operating as a common risk management and insurance program for any and all transit commissions, agencies, districts, authorities, boards, and similar entities. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan Transit Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$50,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss, including Workers Compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. It is not possible to estimate the amount of such additional assessments.

The Michigan Transit Pool publishes its own financial report, which can be obtained from BDO Seidman, LLP, and 99 Monroe Ave, NW Suite 800, Grand Rapids, MI 49503-2654.

NOTE 9 - POST EMPLOYMENT BENEFITS

The Eastern Upper Peninsula Transportation Authority Employees' Retirement Health Benefits Plan was established in October 1992 as an Internal Revenue Code Section 501 (c) (9) organization. The Plan provides for the payment of Eastern Upper Peninsula Transportation Authority employees' retirement health benefits.

In addition to the pension benefits described in Note 14, the Authority provides postretirement health care benefits, in accordance with State statutes, to all employees who retire from the Authority on or after attaining age 55 with at least 15 years of service or age 60 with at least 6 years of service. At September 30, 2005, eight retirees met those eligibility requirements. The post retirement health fund pays anywhere from 37.5% to 100% of retirees health insurance premiums based on the number of years of service. The Authority contributes, on a pay-as-you-go basis, 6% of payroll, to the Plan. Expenditures for postretirement health care benefits are based on the contributions and health insurance premiums. Expenditures of \$73,660 and \$87,935 were made for post retirement health insurance premiums, and \$68,875 and \$69,862 for contributions to the plan for the years ended September 30, 2004 and 2005, respectively.

NOTE 9 - POST EMPLOYMENT BENEFITS (Continued)

Significant actuarial assumptions used in the valuation performed as of September 30, 2002, include health inflation assumption of 4.5% a year.

NOTE 10 - CONTRACT CONTINGENCIES

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under terms of the grants. Such audits could lead to reimbursements to the grantor agencies. Certain grants have not been audited and settled at September 30, 2005, and any resulting liabilities from those audits are therefore undeterminable.

NOTE 11 - NET ASSETS

\$159,686 of net assets has been designated for local capital match on future grants.

NOTE 12 - COST ALLOCATION PLANS

The Authority has a cost allocation plan approved by Bus Transit Division, MDOT, for allocation of administrative expenses. This approved plan has been adhered to in the preparation of these financial statements.

NOTE 13 - FARE SURCHARGE

The local Authority is required to provide 10% of each dollar spent on such capital grant projects. To generate the funds for this local match, a 5.0% surcharge was added to ferry ticket prices. In addition, ferry operating surpluses have been designated for capital match per agreement with the State of Michigan Department of Transportation.

NOTE 14- RETIREMENT PLAN

Description of Plan and Plan Assets

The Authority is in an agent single-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions; normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

NOTE 14- RETIREMENT PLAN (Continued)

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA) 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issued a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The Authority is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2004 is 17.57%.

Annual Pension Cost

During the fiscal year ended September 30, 2005, the Authority's contributions totaling \$164,490 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. Employees of the Authority are not required to contribute to the plan.

Three year trend information as of December 31, 2004 is as follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 3,590,386	\$ 3,888,920	\$ 4,124,177
Actuarial Accrued Liability	5,039,227	5,607,946	6,312,323
Unfunded AAL	1,448,841	1,719,026	2,188,146
Funded Ratio	71%	69%	65%
Covered Payroll	1,032,229	961,203	892,815
UAAL as a Percentage of Covered Payroll	140%	179 %	245%

NOTE 14- RETIREMENT PLAN (Continued)

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 149,962	100%	0%
2003	172,281	100%	0%
2004	170,375	100%	0%

NOTE 15 - DEFERRED REVENUE

The Authority is party to various contracts for operating and capital assistance with the State of Michigan.

The following schedule illustrates the changes in deferred revenue:

<u>CURRENT</u>	
Beginning balance	\$ (40,323)
State appropriation advances	1,287,222
Eligible expenditures (reimbursable)	(1,349,451)
Miscellaneous adjustments	<u>894</u>
	<u>\$ (101,658)</u>

*Net balance is comprised of \$3,672 deferred revenues and \$(105,330) Due From State of Michigan (see note 17) attributable to bus and ferry operations respectively.

NOTE 16 - DUE FROM STATE OF MICHIGAN

The Authority is party to various contracts for operating and capital assistance with the State of Michigan. A summary of the amount owing to the Authority as of September 30, 2005, is as follows:

Net eligible ferry expenditures exceeding state appropriation	
Advances for fiscal year 2005 and 2004 (Note 15)	<u>\$ 105,330</u>
Total	<u>\$ 105,330</u>

NOTE 17 - SUBSEQUENT EVENTS

Subsequent to the Authority's year end, the Authority purchased fixed assets amounting to over \$200,000. These fixed assets included a bus, a ferry engine, and a rebuilt ferry engine.

Required Supplemental Information

Eastern Upper Peninsula Transportation Authority

Schedule I Statement of Revenues and Expenses by Division For the Year Ended September 30, 2005

	Chippewa Rural Bus	Luce Rural Bus	Drummond Island Ferry	Sugar Island Ferry	Neebish Island Ferry	Admin.	EUPTA Local	Total
Operating Revenues:								
Fares	\$ 136,081	\$ 25,157	\$ 611,506	\$ 430,089	\$ 64,323	\$ -	\$ -	\$ 1,267,156
TOTAL OPERATING REVENUES	136,081	25,157	611,506	430,089	64,323	-	-	1,267,156
Operating Expenses:								
Salaries	148,677	39,810	466,264	386,168	4,793	153,907	-	1,199,619
Fringe benefits	56,515	25,478	283,021	233,855	3,179	93,512	-	695,560
Services:								
Legal and accounting	-	-	14,620	17,608	2,783	34,049	-	69,060
Advertising fees	138	-	110	52	65	319	-	684
Purchased transportation services	-	-	-	-	109,213	-	-	109,213
Other services	618	-	474	574	665	-	-	2,331
Materials and supplies consumed:								
Fuel and lubricants	63,519	5,519	230,467	89,830	3,565	-	-	392,900
Tires and tubes	2,495	208	-	-	-	-	-	2,703
Other materials and supplies	13,099	3,240	17,448	14,755	3,724	5,595	-	57,861
Utilities	2,522	1,864	2,446	519	381	2,945	-	10,677
Casualty and liability costs:								
Premiums for public liability and property damage insurance	35,648	3,526	60,580	23,887	7,913	1,094	-	132,648
Other casualty and liability costs	-	-	60	110	232	-	-	402
Building maintenance and repairs	5,804	-	11,703	8,316	4,218	3,939	-	33,980
Travel and auto expenses	55	-	7,423	4,466	1,099	10,811	-	23,854
Miscellaneous expenses:								
Advertising/promotion media	653	19	4,689	4,112	1,444	-	-	10,917
Other miscellaneous expenses	5,760	950	7,716	6,100	644	1,117	-	22,287
Depreciation	51,677	8,163	262,298	125,743	31,241	4,404	186	483,712
Interest expense	-	-	10,488	986	-	-	-	11,474
Administrative overhead	51,324	6,821	135,981	95,782	21,697	(311,605)	-	-
TOTAL OPERATING EXPENSES	438,504	95,598	1,515,788	1,012,863	196,856	87	186	3,259,882
NET OPERATING INCOME (LOSS)	(302,423)	(70,441)	(904,282)	(582,774)	(132,533)	(87)	(186)	(1,992,726)
Non-Operating Revenues (Schedule 2)								
Local	22,839	5,250	100	-	-	87	21,104	49,380
State and Federal:								
Rural Transit Assistance Program	2,576	-	-	-	-	-	-	2,576
Project Zero Operating	-	32,817	-	-	-	-	-	32,817
Section 5311 Operating	46,762	6,655	-	-	-	-	-	53,417
ACT 51 Appropriation Adjustments	5,631	-	-	-	-	-	-	5,631
ACT 51 Appropriation	168,311	22,952	633,030	442,480	82,678	-	-	1,349,451
Capital Grants	29,871	26,809	39,875	364,429	18,045	-	-	479,029
Capital Match	-	-	28,076	(9,383)	1,855	-	-	20,548
TOTAL NON-OPERATING REVENUES	275,990	94,483	701,081	797,526	102,578	87	21,104	1,992,849
NET INCOME (LOSS)	\$ (26,433)	\$ 24,042	\$ (203,201)	\$ 214,752	\$ (29,955)	\$ -	\$ 20,918	\$ 123

Eastern Upper Peninsula Transportation Authority

Schedule II Schedule of Non-Operating Revenues For the year ended September 30, 2005

Local Operating Assistance:

Counties:

Chippewa County	\$ 12,500
Luce County	5,250

Total County Operating Assistance	17,750
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Other local:

Capital Match	20,548
Interest	14,804
Proceeds from sale of assets	5,978
Other	10,848

Total Other Local Assistance	52,178
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Total Local Operating Assistance	69,928
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State Operating Assistance:

Operating Assistance - Bus	191,263
Operating Assistance - Ferry	1,158,188
Operating Assistance - Ferry Adjustments	5,631
Capital Grants	479,029
Project Zero Operating	32,817

Total State Operating Assistance	1,866,928
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Federal Operating Assistance:

Rural Transit Assistance Program (RTAP)	2,576
Section 5311 Operating	53,417

Total Federal Operating Assistance	55,993
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TOTAL NON-OPERATING REVENUES	\$ 1,992,849
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Eastern Upper Peninsula Transportation Authority

Schedule III

Schedule of Expenses by Contract and Act 51 Appropriation For the year ended September 30, 2005

	Project Zero 2002-0035Z6	Ferry Operating Assistance ACT-51	Ferry Capital 2004-0054	Ferry Capital 2003-0356	Ferry Capital 2001-0291	Bus Capital 2000-0035 72596A	Bus Capital 2000-0035 Z13 80061A	Bus Capital 2002-0035 Z15 76699A	Bus Capital 2002-0035 Z5 76693A	Bus Operating 2002-0035Z3	Bus Operating Assistance ACT-51	Totals
Labor	\$ 17,481	\$ 857,226	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,373	\$ 188,488	\$ 1,086,568
Fringe benefits	5,452	520,055	-	-	-	-	-	-	-	10,154	81,891	617,552
Services:												
Legal and Accounting	-	35,010	-	-	-	-	-	-	-	-	-	35,010
Advertising Fees	-	227	-	-	-	-	-	-	-	17	138	382
Purchased Transportation Services	-	109,213	-	-	-	-	-	-	-	-	-	109,213
Other Services	1,449	1,713	-	-	-	-	-	-	-	77	618	3,857
Materials and supplies consumed:												
Fuel and lubricants	3,662	323,863	-	-	-	-	-	-	-	8,561	69,038	405,124
Tires and tubes	296	-	-	-	-	-	-	-	-	335	2,703	3,334
Other materials and supplies	1,260	35,926	-	-	-	-	-	-	-	2,026	16,338	55,550
Utilities	1,242	3,346	-	-	-	-	-	-	-	544	4,386	9,518
Casualty and liability costs:												
Premiums for public liability and property damage insurance	1,821	92,381	-	-	-	-	-	-	-	4,858	39,174	138,234
Other casualty and liability costs	45	403	-	-	-	-	-	-	-	-	-	448
Building maintenance and repairs	-	24,237	-	-	-	-	-	-	-	720	5,804	30,761
Travel and auto expenses	46	12,988	-	-	-	-	-	-	-	7	55	13,096
Miscellaneous expenses:												
Advertising/promotion media	-	10,245	-	-	-	-	-	-	-	83	672	11,000
Other miscellaneous expenses	63	14,459	-	-	-	-	-	-	-	23	185	14,730
Depreciation	-	419,282	-	-	-	-	-	-	-	8,182	65,980	493,444
Interest expense	-	11,475	-	-	-	-	-	-	-	-	-	11,475
Capital Outlay	-	-	174,763	59,022	188,564	435	20,339	2,500	33,406	-	-	479,029
Administrative overhead	-	253,460	-	-	-	-	-	-	-	7,117	57,399	317,976
TOTAL OPERATING EXPENSES	32,817	2,725,509	174,763	59,022	188,564	435	20,339	2,500	33,406	66,077	532,869	3,836,301
Less:												
Capital Outlay	-	-	174,763	59,022	188,564	435	20,339	2,500	33,406	-	-	479,029
Ineligible Expenses	32,817	404,005	-	-	-	-	-	-	-	12,663	102,122	551,607
Totals	-	2,321,504	-	-	-	-	-	-	-	53,414	430,747	2,805,665

Eastern Upper Peninsula Transportation Authority**Schedule IV****Schedule of Net Eligible Cost Computations
For the year ended September 30, 2005**

	Federal Section 5311 2002-0035Z3	ACT-51 Appropriation		
		Bus Operating	Ferry Operating	Total
Total operating expenses	\$ 532,869	\$ 532,869	\$ 2,725,509	\$ 3,258,378
Ineligible expenses	102,122	102,122	404,005	506,127
Net eligible costs	430,747	430,747	2,321,504	2,752,251
Reimbursement rates	12.40%	38.43%	50.0%	-
Calculated reimbursement	\$ 53,417	\$ 165,536 *	\$ 1,160,752	\$ 1,326,288

* The amount of formula funds received in FYE 05 is equal to the 1997 floor per Act 51.

Eastern Upper Peninsula Transportation Authority

Schedule V

Schedule of Mileage Data, Vehicle Hours and Passengers (Unaudited)

For the year ended September 30, 2005

	<u>Passengers</u>	<u>Public Transportation Mileage</u>	<u>Vehicle Hours</u>
DEMAND RESPONSE:			
First Quarter	12,441	73,373	3,052
Second Quarter	13,359	76,516	3,380
Third Quarter	13,225	77,977	3,317
Fourth Quarter	<u>13,357</u>	<u>76,370</u>	<u>3,376</u>
TOTALS	<u><u>52,382</u></u>	<u><u>304,236</u></u>	<u><u>13,125</u></u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Eastern Upper Peninsula Transportation Authority
4001 I-75 Business Spur
Sault Ste. Marie, MI 49783

We have audited the financial statements of the business-type activities of the Eastern Upper Peninsula Transportation Authority as of and for the year ended September 30, 2005, which collectively comprise the Eastern Upper Peninsula Transportation Authority's basic financial statements and have issued our report thereon, dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Eastern Upper Peninsula Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Upper Peninsula Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Eastern Upper Peninsula Transportation Authority in a separate letter dated December 15, 2005.

This report is intended solely for the information and use of the Board of Directors of Eastern Upper Peninsula Transportation Authority, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2005



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT TO MANAGEMENT

Board of Directors
Eastern Upper Peninsula
Transportation Authority
4001 I-75 Business Spur
Sault Ste. Marie, MI 49783

We have audited the financial statements of the E.U.P. Transportation Authority for the year ended September 30, 2005, and have issued our reports thereon dated December 15, 2005. Professional standards require that we provide you with the following, information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the E.U.P. Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of E.U.P. Transportation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the E.U.P. Transportation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the E.U.P. Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. An example of an estimate used by the Authority is the useful lives of their fixed assets.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the E.U.P. Transportation Authority's financial reporting process (that is, cause financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the E.U.P. Transportation Authority, either individually or in the aggregate indicate matters that could have a significant effect on the E.U.P. Transportation Authority's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the E.U.P. Transportation Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the E.U.P. Transportation Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit. Other communications were communicated orally with management during the audit process.

Comments and Recommendations

Purchasing Policy (Prior Year)

The Authority does not currently have a procurement/purchasing policy. We recommend the Authority adopt such a policy.

Status: The Authority is currently working on implementing a policy.

Fixed Assets

The Authority is required to capitalize all assets purchased by grants received; therefore, there is no minimum limitation for the dollar amount of an asset to be capitalized. The Authority should have a policy written reflecting their capitalization procedures.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of management and the Board of Directors of Eastern Upper Peninsula Transportation Authority, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 15, 2005